

19.49x24.14	31	30	עמוד	THE JERUSALEM REPORT	09/10/2012	33994882-6
שמואל נאמן מוסד למחקר מדיניות לאומית בטכניון - 85300						



MARKETPLACE

Shlomo Maital

Tycoons in trouble

The tycoons' woes threaten the stability of Israel's largest banks and the economy itself

THE WORD TYCOON COMES from the Chinese words *tai'kuin*, meaning great lord. Until recently, Israel's great lords controlled 60 per cent of the net wealth in the economy and a third of the 500 largest companies' income.

But today, they are almost all in trouble. They acquired great wealth by borrowing massive sums from banks and pension funds, then used the loans to gain control of businesses and invest in real estate. Today, deep in debt, they struggle to redeem their maturing bonds and repay principal and interest on their bank loans after many of their investments have gone sour in the global recession (*see THE JERUSALEM REPORT, October 24, 2011, and February 27*).

The tycoons' troubles are also our own, because they owe money to our pension funds and because their woes threaten the stability of Israel's largest banks and the economy itself. Last May, Moody's international credit rating agency downgraded Israel's banking system outlook from stable to negative because of "a predicted economic drop-off". Part of that downgrade may be related to the tycoons' bank loans, at least part of which will not be repaid.

Who are the tycoons?

They are the heads of a small group of 19 families that have employed "leverage" (borrowed money) to gain control of a hodgepodge of companies in finance and industry: Dankner, Ofer, Tshuva, Weissman, Arison,

Bino, Federmann, Borovich, Leviev, Hamburger, Azrieli, Fishman, Strauss, Wertheimer, Alovich, Zisapel, Shahar, Kass, and Schmelzer families. To be fair, a few, like Zisapel, Wertheimer and Strauss, built wealth patiently solely through industrial excellence and entrepreneurship.

Almost no one becomes super rich using only their own capital. The tycoons use their connections to borrow huge sums – debts that for some, are proving their downfall.

The tycoon now in the news is Nochi

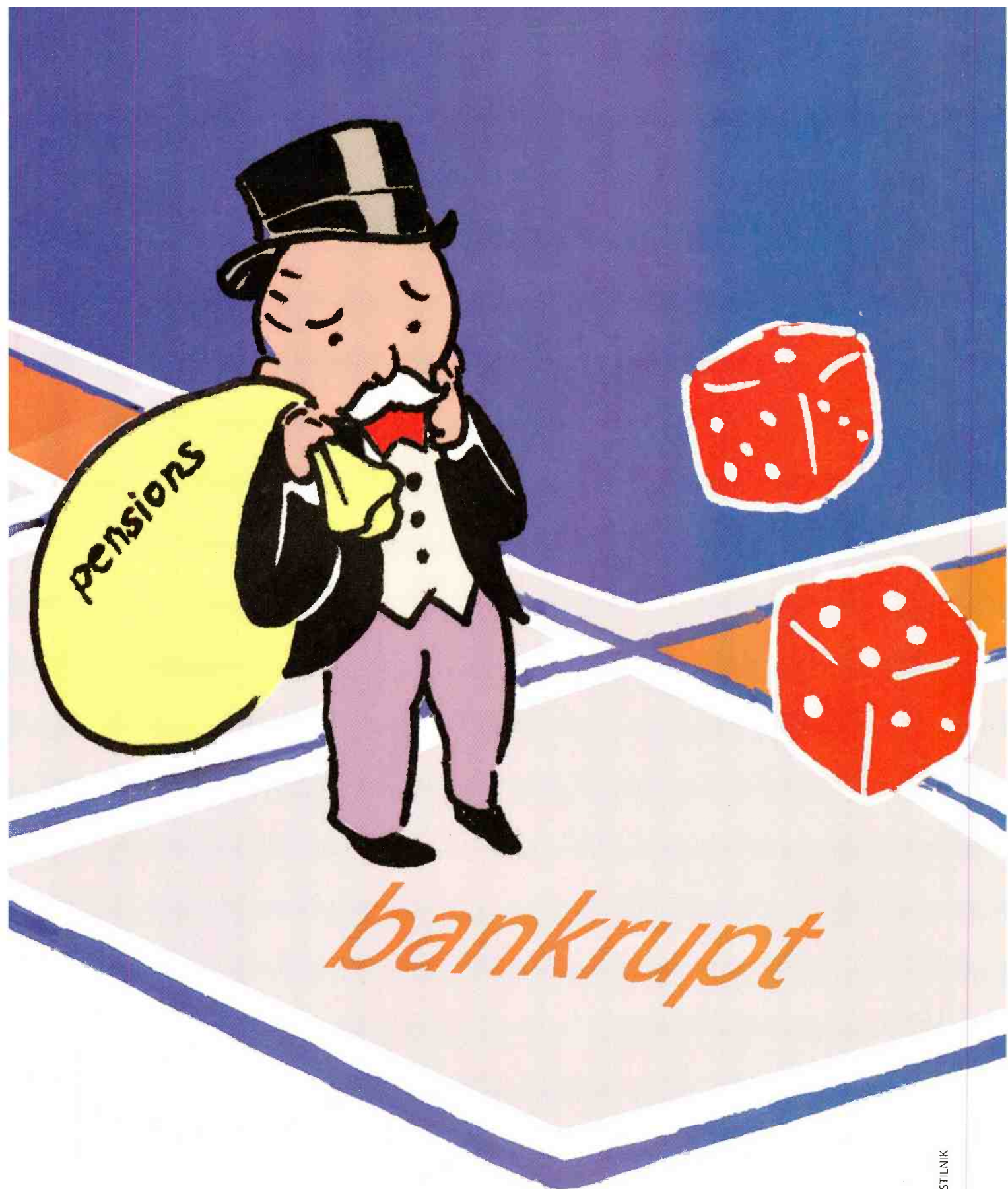
Dankner, whose IDB Holdings owe NIS 4.2 billion (\$1.06 b.) to bondholders and NIS 2.2 b. (\$554 m.) to banks and financial institutions, or a total of NIS 6.4 b. (\$1.614 b.), including NIS 750 m. (\$189 m.) owed to Bank Hapoalim. It is believed the bank has already written off a large chunk of that loan.

Dankner is battling with bondholders over an upcoming bond payment, after auditors attached a "going concern warning" (a technical term implying doubt about the company's ability to continue to function as a business entity) to IDB's second-quarter financial report. IDB Holdings' assets are now less than its liabilities and its share price has plummeted from \$1,500 in November 2011 to today's \$571, a drop of almost two-thirds.

Other tycoons are also struggling to pay back borrowed money. They include Lev Leviev (Africa-Israel Corp.), Yitzhak Tshuva (Delek Real Estate), Ilan Ben-Dov (Partner), Shaul Alovitz (Bezeq) and Eliezer Fishman (Industrial Buildings Corp.). Fishman has been in hot water before, after losing a fortune in currency speculation. Tshuva and Leviev have used their personal wealth to pay off debt. But Dankner may not have that capability.

If we allow tycoons to borrow irresponsibly large sums, we deserve the mess the tycoons have brought us

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Who is Dankner?

Nochi Dankner, 58, is the nephew of Shmuel Dankner, family patriarch and leader. He owns IDB Group and is a philanthropist, contributing through his companies to universities and hospitals. He is a major in the IDF reserves and holds degrees in law and political science from Tel Aviv University.

He became a tycoon in 2003, when he borrowed funds to take control of IDB. The key loan came from Amitim, a confederation of former Histadrut pension funds, joined together to strengthen them and improve their efficiency. Ironically, it is the pension money of working people, Histadrut labor union members, that made possible Dankner's tycoon status. The Histadrut is not a great buddy of the tycoons.

How did Dankner and the others become tycoons anyway? It's pretty simple, actually. In good times, during inflation, borrow and buy assets. If you have good connections, it's easy to get credit, banks even pursue you to lend you money, pension funds buy your bonds with glee. Then you pay back the debt, when it matures, in deflated money, when money is easy to get, using the cash from the companies you bought. Basically, you buy companies with their own money.

For tycoons, like stand-up comedians, timing is everything. Before the bad times hit, before the onset of deflation, when money becomes hard to come by, you have to sell assets and pay off as much of the debt as you can. This is very tricky, because you have to anticipate when to get out of the markets, when to sell, and this is hard to do for two reasons. First, some projects are not "liquid" or easy to sell. Second, it's tough to leave a rip-roaring party when it is in full swing, before the cops come. Few business leaders seem to have that knack. Dankner certainly doesn't. Nor did many of the other tycoons.

What is IDBH's problem?

IDB Holdings control a grab bag of companies, in insurance, mobile phones, biotech, retail apparel, cement, real estate, financial services and chemicals. There is little rhyme or reason to this conglomerate, very little synergy, and the very notion of a conglomerate went out of fashion in America three decades ago.

When IDB companies make money, they can pay their debts. When they don't, they can't. And lately, former cash cows like Cellcom, Super-Sol, Clal Insurance and Neshor cement have faced increased com-

petition and sharply reduced profits.

IDB's immediate problem is linked to three very bad business decisions, all driven by Dankner himself. First, Dankner bought a large block of stock in the global Swiss

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bank Credit Suisse. At first, he looked like a genius, as the stock price soared from a low of about \$20 in 2008 to nearly \$60 in 2009. But Credit Suisse shares have now dived again, back to \$21 and Dankner's IDBH has lost heavily as a result.

Second, Dankner partnered with tycoon Tshuva to buy land in Las Vegas for a staggering \$1.24 b. The deal was paid for with borrowed money. The land is now worth far less than the original loan.

And third, Dankner's IDB, through its subsidiary Discount Investments, bought a newspaper, Maariv, with a bloated work force of 2,000 and enough red ink to drown the Chinese Navy, with cumulative losses since 2000 amounting to NIS 800 m. As a result, Discount Investments shares fell by 60 percent in 2011. Maariv was recently sold to a publisher, Shlomo Ben-Zvi, but IDB is still responsible for Maariv's debts.

Maariv fiercely defended Dankner against mostly hostile print and TV media, but has proved to be a costly ego trip. Two minority shareholders of Discount Investments filed suit against IDBH and Dankner, claiming that buying Maariv "lacked any business or economic logic." As business daily Globes writer Stella Korin-Lieber noted, "[Dankner] didn't pay attention to the changes that were taking place in the business world. He had a lot of arrogance and conviction [that] 'we will be fine.'"

How will the struggle between Dankner and his creditors be resolved? The battle is a game of "Chicken". Each side threatens the other with huge losses, even if they themselves lose. In the end, Dankner is playing for time, hoping that his investments improve enough over time to generate cash to pay his debts. But as the clock ticks, more and more debt comes due. When the dust settles, Dankner may no longer be a tycoon.



NOCHI DANKNER: When the dust settles, Dankner may no longer be a tycoon

Who is to blame for this mess?

There is more than enough blame to go around. Dankner himself made horrendous mistakes. IDBH's Board of Directors failed to rein him in. Bank of Israel regulators were lax. Pension fund heads and banks lent him money without due care.

In the end, we voters are all to blame. If we do not organize protests and push to make illegal the kind of pyramids that enable a tiny Dankner company, Genden Holdings, to control a huge chunk of Israel's economy, if we allow tycoons to borrow irresponsibly large sums just because they can, we deserve the mess the tycoons have brought us.

A social protest group called Yisrael Yekara Lanu (Israel is dear to us) claims that "the banks take billions of dollars that we Israeli citizens deposit, then use that money to provide loans to tycoons, so that they can monopolize the market." Then, says the group, "the tycoons make their products more expensive to repay the debts to the banks." There may be some truth to this.

The only consolation, very small indeed, is that the global recession that now is impacting Israel and hurting ordinary working people may help reduce the enormous economic power wielded by the tycoons.

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